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FOREWORD

Present Day Social and Industrial Conditions in Austria

By DR. FRIEDRICH HERTZ

Vienna

THE fate of Austria has aroused a world-wide sympathy and the unparalleled relief-movement organized in so many countries, is, perhaps, the most hopeful symptom of the revival of the spirit of solidarity and brotherhood in the world. America has taken the lead in this movement and her generous efforts have actually saved Austria's children and have filled the hearts of the Austrian people with gratitude and admiration. Yet even charity must at last come to an end. The question therefore arises whether the present Republic of Austria, as constituted by the Peace Treaty, is capable of existing as a separate unit at all; whether it possesses the basis for living on the products of its own labor.

Austrian public opinion at present seems to despair of this possibility. For plebiscites, organized in several Austrian provinces, gave an overwhelming majority for fusion with Germany. Also, immediately after the foundation of the Republic, the Austrian National Assembly pronounced itself for such a union. But all these declarations encountered the veto of the Allies, especially of France, which threatened Austria with the gravest measures if she did not check the movement, though the Peace Treaty expressly admits the possibility of a fusion with the consent of the League of Nations. The Austrian plebiscites had no aim other than to create a basis for an appeal to the League of Nations by ascer-

taining that the people really desired a fusion with Germany.

The motives of this movement are to a great extent economic though, of course, the general desire for national unification also plays a certain part. A glance at the rates of exchange or prices, suffices to prove that Germany is by far better off than Austria, in spite of all the schemes for the economic rehabilitation of Austria, drawn up by the Allies. Up till now (July, 1921) very little has come of all these schemes and Austrian public opinion has lost nearly all confidence in this respect. On the other hand the German mark, which in pre-war days was 1.18 kronen, at present is equivalent to almost 11 kronen! The main reason for this disastrous depreciation of the currency consists in the disproportion between imports and exports, which forces the government continually to increase the banknote circulation in order to pay for the necessary imports of food, coal, and raw materials. Consequently, the Austrian krone has gone down to much less than the hundredth part of its pre-war standard and the budget shows a steadily increasing deficit.

Now the question is whether this deficit in the trade balance and in the budget is temporary or permanent; in other words, whether Austria possesses enough productive powers to pay for her supplies from abroad. In Austria opinions on this point are divided but in most cases the answer is in the negative. The fact is emphasized that by

the Peace Treaty Austria has lost most of her natural wealth; that her former coal riches, especially, and most of the fertile soil have been awarded almost totally to other countries, and that nothing has been left to Austria but the barren rocks of the Alps and a huge capital of two million inhabitants, the former administrative center of a big empire, now doomed to unproductiveness. It has been maintained that the population of Vienna consists mainly of officials, commercial and financial middlemen, artists, pleasure-seekers and similar elements, while industrial production in former Austria was mostly carried on in Czecho-Slovakia. Such statements, however, are exaggerations. To a great extent their underlying motive is political propaganda, and they are employed especially by certain supporters of the fusion with Germany to underrate the productive capacity of Austria in order to prove that the union is the only way left. On the other hand, these pan-German arguments are also used by Czech propagandists who represent Vienna as a parasite which has always sponged on the toil of the Slavic provinces and which therefore must be eliminated by a system of trade restrictions.

The only truth in all these statements is that the natural resources of present Austria are very restricted indeed. They consist mainly in forests, iron ore, salt and water powers. Of the total subterranean coal wealth of former Austria, only one-half of one per cent came to the present Austrian Republic, all the rest being divided between Czecho-Slovakia and Poland.¹ Then, too, the agricultural soil of Austria cannot be compared with the rich plains of Jugo-Slavia, Poland or Czecho-Slova-

kia. It is also true that Austria has lost a very great part of her industries, developed, financed and owned by Austrian manufacturers in the German parts of Czecho-Slovakia. But on the other hand, Austria even now possesses great industries, mainly concentrated in and around Vienna. Probably most Austrians would be highly surprised by the statement that present Austria comprises almost the same number of factories and factory workers as Bohemia, though Bohemia has half a million inhabitants more. Yet it is an indisputable fact as can easily be gathered from pre-war statistics.

In former Austria, every industrial worker employed in a workshop with motor power had to be insured against accident. In 1913 the number of such insured industrial workers amounted to 745,289 in Bohemia and to 740,000 in the present territory of Austria. The number of factories (workshops with motor power and more than twenty workmen) amounted in 1919 to 6,283 in present Austria, while in Bohemia there were 6,544 factories in 1915. These are the latest figures available. Of course, Bohemia had a greater mining industry (64,568 miners against 29,308 in Austria) and her domestic industries, not included in the preceding statistics, were more extensive than those of Austria. Moreover, Bohemia has the great advantage of a much more fertile soil and a very high level of agricultural development as compared with Austria. But these advantages of Bohemia are more than outweighed by the enormous transit, trade and banking system of Austria, by her great capital investments in all the territories of the former empire and by the importance of Vienna as a center of science, medicine, technics, art, music and pleasure, attracting hundreds of thousands of foreigners from all parts of the world.

¹ The actual output is larger than the percentage quoted but the Austrian coal mines will be exhausted in a rather short time and the coal (lignite) is of very poor quality.

The greatest drawback for Austria is that her agriculture, which is mainly in the hands of small peasants, is not on the same level as her industries. Yet Austria possesses 50 per cent more productive soil per head than does Switzerland, and it can easily be proved that Austria could produce the greatest part of her food requirements. This, however, cannot be achieved in a short time because the peasants can only be educated gradually and slowly. Moreover, the development of Alpine agriculture according to the Swiss model demands large capital and many years.

Also, the view that unproductive elements form a much greater part of the population in Austria than elsewhere is quite unfounded. Before the war in the present territory of Austria 53 per cent of the total population were employed in different occupations and this figure surpassed every country in Europe and was equalled only by France. Especially great was the percentage of female workers. The number of officials and professionals (lawyers, teachers, etc.) in 1910 amounted to 7.29 per cent of the occupied population in Austria; to 8.2 per cent, in France; 6.4 per cent, in England; 6.2 per cent, in Germany and 6.1 per cent, in Holland. This percentage of officials would certainly seem too numerous for present impoverished Austria, but it must be borne in mind that the figures usually quoted comprise all the railwaymen and workers in state mines and factories (salt and tobacco monopolies, etc.). The greatest part of these so-called officials are therefore manual workers. If railway employes are excluded, the number of state officials (including teachers and law officials) forms about six-tenths of one per cent of the population.

It is possible, therefore, that Austria possesses enough productive forces to maintain herself, provided that she

were really in a condition to use these means to their full extent. If the plight of Vienna and the ruin of Austrian finances has startled the world, the reason consists in the fact that productivity was paralyzed for a very long time and even now is far from being normal.

Present Austria produces comparatively but little coal, raw materials and food and she must buy these products from the neighboring states with industrial products. Therefore, Austria more than most other states absolutely requires free trade both for imports and exports. Long before Germany was united in a customs union, old Austria had already formed an economic unit without internal barriers (since 1773) and all parts of the big empire were economically interdependent. This economic unity was broken up by the Peace Treaty in such a way that new Austria was absolutely at the mercy of her neighbors who believed that their interests would be greatly furthered by a system of economic seclusion. This belief, however, proved entirely wrong. The disruption of the monetary union by Jugo-Slavia and Czecho-Slovakia not only ruined Austrian currency, but also did great harm to the monetary value of the states themselves. While after the war the old Austrian currency was still quoted about 30 Swiss francs for 100 kronen, this figure, after the stamping of the bank notes, went down to about 4 francs for Czecho-Slovakia, and even now, after the lapse of three years, stands below 8 francs. The same happened in all other states which believed that the monetary separation from Austria would greatly improve their own currency.

The same belief led also to a sort of mutual commercial blockade among all the Succession States of Austria-Hungary. Of course the underlying ideas of this new mercantilism were, more or

less, to be found everywhere in Europe; they were but the war spirit applied to economics. Everywhere, states (and even provinces or districts within each state) endeavored to keep their food and other vital productions as much as possible for themselves, and therefore restricted exports. Everywhere, the tendency was also to restrict imports of luxuries and other "unnecessary" things in order to protect the rate of exchange; and, lastly, everywhere, traffic and travelling generally were subjected to many regulations and restrictions, either in order to secure the working of the internal distribution, the control of food, coal and raw materials introduced during the war or to conform to the Peace Treaty.²

But in the case of the Austro-Hungarian Succession States, the consequences of this system were the more disastrous as they had formed an economic unit for many centuries, and as very often the economic isolation was still aggravated by national animosities.

Most critical was the situation at Vienna, because it was most helpless and most exposed not only to national jealousies directed against the former capital itself but also to economic reactions springing from differences among neighbors. Whenever Poles and Czechs, or Poles and Germans, or Hungarians, or Czechs, or Italians and Jugo-Slavs were quarrelling about coal territories, or a province or a seaport, the reaction was felt in Vienna, because of her central position, and immediately

coal and food supplies were stopped either through the suspension of railway traffic or through other extraordinary measures. Moreover, every state possessing food was willing to sell it only against "sound money" or against goods, not against paper money. But how could Vienna pay in sound money since the disruption of the monetary union had brought about a total breakdown of the Austrian currency, and how could her industries produce, since the coal supply from Czecho-Slovakia and Silesia was strangled to an entirely insufficient minimum? In 1919 the factories of Austria could work only at a rate of about 25 per cent because the coal producing states absolutely refused to deliver more coal and the people of Vienna had to cut down trees in the surrounding woods and drag them home on their backs in order to cook their scanty meals. In the following year the coal output in Czecho-Slovakia increased to 86 per cent of the peace production, yet Austria received only 40 per cent, though most of the Czecho-Slovak mines are owned by Austrians who would willingly have sent coal if the Czech Government had only allowed it. At last the impoverishment of Austria led to a severe crisis in Czecho-Slovakia whose industries had always sold most of their products to Vienna. The consequence was a closing down of factories in Czecho-Slovakia and a setting free of coal for Austria which, however, in the meantime had been forced to procure coal from Holland!

In the same way Austria had during a long time to buy grain, flour and meat in America, Manchuria, etc., and even sugar in Java, instead of getting them from her neighbors who had an abundance of these foodstuffs. Generally in all states, including Austria, exports were restricted not only where there was a scarcity, but also when a great

² On the one hand, the economic system of the Peace Treaty forcibly increases exports for Reparation, etc., and at the same time keeps down wages in Germany and Austria. The natural consequence is that every other state tries to shut itself off against these forced exports. On the other hand Germany and Austria had to impose enormous new taxes and this made it necessary too to control exports in order to prevent *Vermögensflucht* (smuggling out of values).

surplus was available for export, as in the case of sugar and coal in Czecho-Slovakia, or in the case of wood and paper in Austria and of cattle and grain in Jugo-Slavia. Every state tried to control the export of its chief products in order to exact greater advantages from neighbors dependent on these supplies. But the result of this policy was very often the exact opposite of that expected! Indeed, Czecho-Slovakia which developed this policy to the highest pitch, through it lost the Austrian market for many of her products. For example, Czecho-Slovakia restricted the export of textile goods and iron to Vienna with the effect that the Italians conquered the Austrian market in cotton goods and the Germans, the iron market to the detriment of Czecho-Slovakia. The same policy of state interference was also applied to imports, and Austria suffered severely through the sudden seclusion of many of her traditional markets. Instead of protective tariffs, a general prohibition of all imports has been decreed and any imports (as well as exports) require special licenses.

Austria herself at the beginning followed a much freer trade policy than her neighbors, but gradually she, too, began to increase her trade restrictions, either because of retaliation or for purposes of taxation of luxury imports. Yet the whole system has already over-lived itself. Conviction has become general in all the Succession States that trade and traffic must be relieved of some of their fetters and that the system of prohibitions and special licenses must give way to the principle of comparatively free trade under a revised customs tariff.

Under this practical blockade, Vienna had to suffer appallingly but already the beginning of freer traffic has created a surprising revival in trade at the Capital. Moreover, the very difficul-

ties arising from the economic disruption have, on the other hand, contributed to very remarkable developments in Vienna. The countless barriers, discrepancies and frictions between the new states made it more necessary than ever to have a central point for coping with these new fangled absurdities. Every traveller must now continually change his money because he has to pass a new frontier every few hours. The trader cannot send money freely to any place without the assistance of a bank, as he formerly did, and if he has to travel, passport and other difficulties cause enormous waste of time and force. Under such circumstances, Vienna has become a gigantic clearing house, central market and meeting point for all the Succession States. An incredible number of new banks and commercial houses have sprung up and their gorgeous premises form a new feature in the streets of the city. The Vienna banks are dealing every day with fantastic amounts of foreign exchanges and the stock exchange is seething with wild speculation for the account of all new states. The very multitude of trade and traffic difficulties which nobody can keep in mind induces foreign merchants to consign their goods to Vienna which serves as a sort of free port and as a distributing center for the whole of former Austria-Hungary and Eastern Europe. In consequence of so many difficulties, many more brains and hands are necessary for handling a certain volume of trade and this is one of the main reasons for the astounding multiplication of new firms in Vienna.

All these evolutions have created an atmosphere of bustling commercial activity, of reckless gambling and extravagant luxury. The people connected with it are mostly foreigners and the Viennese are very bitter against them, calling them "profiteers"

(Schieber). Yet their doings are to some extent an inevitable consequence of the great catastrophe of war. Good and evil are inextricably mixed up in this development, yet superficial observers usually overlook its less favorable side; they forget that this whole buoyant prosperity is in many respects more apparent and artificial than real, and that, in the main, a relatively small class is profiting by it. For, in the last resort, all these thousands of new traders and gamblers with their huge staff of clerks and their appendix of parasites are, to a great extent, not a symptom of increased production or trade. They owe their existence partly to the disruption of the former economic unity and the paralyzing effects of government restrictions, which can be overcome only by the often unscrupulous practices of these adventurers, and partly to the impoverishment of Austria by such adventurers who with their "sound money" buy up the remnants of Austria's wealth. Somebody must at last pay for this multitude of new businesses, and this darker side is neglected by most of the foreign visitors walking through the luxurious streets near the "Ring."

Yet the fact remains that in the last year a remarkable improvement has taken place in Austria, in spite of the fact that the rate of exchange has dropped about one-fifth during this time.³ The working classes have been able to increase their wages considerably though they are still far below the peace parity. But the situation of the intellectual middle classes and of old people, no longer able to work, has grown still worse. A higher official or university professor, for example, now receives about 12 times his pre-war

salary, and this will soon be increased to about 20 times the amount, but prices have gone up at least from 100 to 150 times as compared with pre-war prices. There are many scholars and retired high functionaries who have taken to manual professions or other very subordinate positions; old admirals or generals have become cobblers and their wives and daughters are toiling day and night with needlework. Many families can keep two ends together only by selling their furniture, trinkets or works of art. Of course this condition must soon come to an end.

The condition of the middle classes however, will be affected for the worse by the progressing abandonment of state control over food. The system of selling food rations to the people below the cost price paid by the state was quite unavoidable as long as the productive forces of the towns were paralyzed by coal scarcity and other hindrances. On the other hand, the state subsidies for this purpose have ruined the budget, and the currency and maximum prices have contributed to lame agricultural production. Therefore a radical change is about to be carried out, but it will certainly cause new sufferings to the classes which are least organized and least able to adapt their income to rising prices, viz., the intellectual workers.

It is generally recognized that any real economic rehabilitation of Austria must begin with the stabilization of the monetary value. The rapid fluctuations in the exchange are seriously impeding solid trade and fostering speculation. Therefore the different schemes for restoring Austria's economic life have all taken this as a starting point. At present the League of Nations is considering such a plan and there is no doubt about its earnest desire to carry it through. Conferences are to be held at the same time between

³ In July, 1920 the quotation in Vienna for 1 £ was 600 kronen and for 1 dollar 150 kronen, while a year later the £ was over 3,000 and the dollar over 800 kronen.

all the Succession States for the settlement of outstanding economic questions and the abandonment of trade restrictions. This excellent scheme is due mainly to the endeavors of the former American Representative on the Reparation Commission, Colonel Smith. Some minor questions have already been settled in this way, but unfortunately most new states seem rather reluctant to follow a policy of economic solidarity and coöperation because they are afraid that this would infringe upon their sovereignty. Austrians, generally, deeply regret that America has withdrawn from the Reparation Commission and that apart from its most magnanimous relief measures the United States seems to be disinterested as regards the economic consequences of the disruption of Austria which was mainly brought about by President Wilson's policy.⁴

One great asset in Austria's future development is the total absence of tendencies dangerous to external and internal peace. Most European countries are at present agitated by the mad convulsions of nationalism and communism. In Germany, Italy, Hungary, etc., civil war was or is still raging, and red and white terrorists are outdoing one another in bloodshed and atrocities. In Austria the whole revolution from an old monarchy to a new republic has passed off quietly. Austria is the only country, indeed, where communism is almost non-existent; at the general elections not even 1 per

⁴It is, however, unfounded to blame the principle of self-determination as is often done in American papers. Not the principle but the fact that it has been disregarded has caused the present economic situation and political unrest. According to this principle the thirty-nine million Germans, annexed by Czecho-Slovakia, would have remained united with Austria and since their territory comprises the greatest coal mines and industries Austria would never have been paralyzed in her productivity and would not have needed any relief whatever.

cent of the votes were cast for the communists and they have not a single member in Parliament. Even the nationalists polled only a small number of votes (13 per cent), and these of a rather mild type if compared with the Pan-Germans in Germany or the Fascisti in Italy. Obviously, the Austrian character is averse to all forms of violence. The two great parties are: 1. The Christian Socialists, who are similar to the German Centre party, and chiefly composed of small peasants and artisans. They polled 43.5 per cent of all votes. 2. The Social Democrats (35.5 per cent), who are moderate Socialists. At present a non-party government is in power, formed of neutral officials and mainly supported by the Christian Socialists. In external politics, Austria pursues a policy of strictest neutrality and good relations to all states.

Vienna has always been a very international city. From earliest times two of the greatest European commercial highways have crossed it. Vienna has also been the center of a great international Empire for many centuries. Nowhere else in Europe do so many cultural elements from different nations flow together, and this very confluence has formed the Viennese character with a certain instinctive tolerance and broadmindedness. There is no aggressiveness in the Austrian mind and the people, certainly, never had the slightest suspicion of the criminal folly of those few diplomats who kindled the War in 1914. Also, the Austrian character does not lack energy to the extent that is so often supposed. But what is really wanting, just now more than ever, is self-confidence. Quite otherwise from the inhabitants of Germany, Austrians were rather used to underrate their own economic efficiency, and their local patriotism satisfied itself, rather, with stressing cultural achieve-

ments. Even before the war it had been a quite general tendency in Austria to compare the economic development of Germany with that of Austria in a manner very derogatory to the latter. Indeed, it was a great surprise to Austrian economists when I proved, in a book published in 1918, that in the ten years before the war Austrian industries had increased in exactly the same proportion as had the industries of Germany.⁵ Now the whole development since the breakdown of old Austria has still greatly increased the lack of confidence in the future. The absolute dependency of Austria on her neighbors as regards food, coal and raw materials, other restrictions in the Peace Treaty and, finally, the failure of so many well-meant schemes of the Allies for the economic restoration, have created a wide-spread feeling of despondency.

Therefore economic reconstruction requires a psychological change as well. It is necessary to diminish the abnormal dependency of Austria on her neighbors and to make her more self-contained by developing agriculture, opening new coal mines and harnessing water powers. A project of greatest importance for Austria has just been started in Germany, namely the construction of a ship canal between the Rhine and the Danube. This great work will, of course, take a long time but its accomplishment will give Vienna free access to the North Sea, and increase traffic on the Danube enormous-

ly. The difficulty with the Danube always has been that while most transports went up the river, return freights were lacking. But after the completion of the ship canal it will be possible to ship all raw materials, food and coal direct from Rotterdam down the Danube to Vienna, and to the other Danube ports which in return will send their products up the river.

Many other excellent schemes; too, have been drawn up for increasing productivity and enabling Austria to live on her labor. But it must be realized that all these plans require great outlay of capital and a long period of time, and that the whole economic organism of Austria has been exhausted to the utmost during the years of the War and still further through the economic war after the War. The particular conditions of Austria render the execution of great schemes and reforms most difficult, and the constantly progressing financial ruin of Austria has up till now justified the pessimism dominating public opinion.

Finally, it is important beyond all that the still pending questions connected with the Peace Treaty should be settled as soon as possible. The uncertainty as to how these outstanding problems will be solved is making for much distrust of the future. Also the question of reparations, though it does not seem to have much practical bearing, ought not to be left open. Only such a general settlement will restore the confidence of foreign capitalists in Austria's future, and will give hope to the Austrians themselves that their efforts for working out their own salvation will not be in vain.

⁵ Cf. Dr. Fr. Hertz, *Die Produktionsgrundlagen der österreichischen Industrie vor und nach dem Kriege, insbesondere im Vergleich mit Deutschland* (Verlag für Fachliteratur, Wien) 6th Edition, 1918.